CAGE & CREDIT

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GENERAL

The Nevada Revised Statutes and the Regulations of the Nevada Gaming Commission and State Gaming Control Board emphasize that gross revenue is, predominantly, calculated on a cash basis. The impact of credit play on gross revenue is no exception.

Generally, gross revenue does not arise from credit play until a licensee either collects on a previously issued credit instrument, pursuant to **NRS 463.0161(1)(b)**, or until a licensee fails to comply with the credit extension and collection procedures codified in gaming regulations and statutes. Therefore, it is necessary to test the existence of receivables, including older accounts, to ensure that collections have not been made without the remittance of the related gaming fees. Credit instruments must also be tested to ensure that if they have not yet been paid or, if the debt was settled, that the unpaid portion is not required to be included in revenue due to the licensee's failure to comply with the regulations and statutes.

This approach seems rather simplistic at first but then realize that the effects of any credit issued at a table game, for instance, must be excluded from that game's revenue. Also, any gaming credit issued at the cage is considered a reduction of gross revenue in the month of issuance. Finally, the increase or decrease in a licensee's monthly returned check balance is a decrease or increase, respectively, to gross revenue.

Under **Regulation 6.120** the adjustment to gross gaming revenue for credit play on the NGC-1 tax report is as follows (these captions correspond to the captions on the actual NGC-1 forms):

Line 2 - ADJUSTMENTS:		
Line 2A	Cage credit issued	- ($xxxx)
Line 2B	Collections in areas other than the pit	+ $xxxx
Line 2C	Net of returned checks	+/- $xxxx
Line 2D	NET ADJUSTMENTS (Line 2A + 2B +/- 2C)	$xxxx

The amounts represent:

Line 2A - The amount of credit that was issued from the cage for the month. Credit issued in the pit should not be included. Note that pit credit need not be "deducted" in this fashion because the table games reported taxable win figure excludes the value of the chips given to patrons in exchange for credit instruments issued in the pit. However, if the cage issues credit, the presumption is that the related chips (or perhaps tokens) were wagered. As such, a portion of the chips on the table or the tokens in the machine (other gaming areas could be affected as well) are actually assets of the licensee and therefore should not be considered in the computation of revenue until the patron pays the licensee the value of those chips. Hence, the basis for the deduction for cage credit issues.

Line 2B - The total of all recoveries on credit instruments whether the instrument was originally issued in the pit or the cage. This amount does not include recoveries on returned checks or pit payments. Note that this adjustment is the method by which revenue is recognized for recoveries, except those occurring in the pit. If a payment is made in the pit, chips would be placed in the table tray or cash would go in the drop box. Accordingly, the

formula for computing taxable table games win would cause these types of recoveries to be recognized without further adjustment.

Line 2C - The net of returned checks pertaining to transactions during the applicable month. Such items as the cashing of personal checks, payroll checks, traveler's checks, etc. by the licensee which are returned by a financial institution unpaid fall into this category. The figure would be negative for instruments returned during the month and positive for items recovered during the month (i.e., if recoveries are greater than items returned unpaid, the figure would be positive). The basis for the net of returned check deduction is the same as for cage credit issuances as described above.

Note that the NGC-1 form is the tax report form that contains the actual computation of revenue subject to tax. Key information relevant to statistical analysis is required to be submitted on form NGC-31. Included on this form is information regarding cash drop per **Regulation 1.095**, pit credit issuances, and pit credit repayments in cash and in chips. All of this information is used to compute statistical data. Credit transactions occurring in the pit directly affect table games revenue and must be fully understood in order to do a valid analysis of the win-to-drop percentages.

Unlike credit play conducted through the issuance of markers, the use of front money is not technically considered credit play as the patron is playing against money deposited with the licensee. Cash deposit/withdrawal slips (CDWs) closely resemble a marker but merely evidence increases or decreases to a front money account. Also, CDWs may be actual slips of paper or electronic debits and credits. The accounting treatment becomes quite important in the process of ensuring that pit credit issues and repayments have been properly recorded and result in the proper computation of statistical win. While CDWs cannot be treated the same for purposes of evaluating compliance with **Regulation 6.120**, if the licensee does not treat a CDW the same as a credit transaction for statistical purposes, statistics may be skewed.

The auditor should determine the existence of any situations in which the licensee may give away chips or cash to a customer and record this information on documents ordinarily used to evidence credit transactions such as marker forms and settlement forms. Typical examples of such activity include airfare reimbursements, “gift chip” payments, and front money rebates, but the auditor needs to be aware that other types of activities may also be reflected in a similar manner. Giveaways are not credit related transactions and, accordingly, licensees should not reduce credit collections for these promotional payments. This is an area where both form and substance must be considered.

OUTSTANDING CREDIT INSTRUMENTS TO BE INCLUDED IN GROSS REVENUE

NRS 463.371(1) requires the computation of gross revenue to include the face value of any credit instrument accepted on or after July 1, 1981, if, within 5 years after the last day of the month following the month in which the instrument was accepted by the licensee, the board determines that:

a. The instrument was not signed by the patron or otherwise acknowledged by him in a written form satisfactory to the board;

b. The licensee did not have an address for the patron at the time of accepting the instrument, or, in lieu of that address, has not provided the board, within a reasonable time after its request, the current address of the patron to whom the credit was extended;
c. The licensee has not provided the board any evidence that the licensee made a reasonable effort to collect the debt;
d. The licensee has not provided the board any evidence that the licensee checked the credit history of the patron before extending the credit to him;
e. The licensee has not produced the instrument within a reasonable time after a request by the board for the instrument unless it:
    1. Is in the possession of a court, governmental agency or financial institution;
    2. Has been returned to the patron upon his partial payment of the instrument;
    3. Has been stolen and the licensee has made a written report of the theft to the appropriate law enforcement agency; or
    4. Cannot be produced because of any other circumstance which is beyond the licensee's control;
f. The signature of the patron on the instrument was forged and the licensee has not made a written report of the forgery to the appropriate law enforcement agency; or
g. Upon an audit by the board, the licensee requested the auditors not to confirm the unpaid balance of the debt with the patron and there is no other satisfactory means of confirmation.

The above does not apply to any credit instrument which is settled for less than its face amount to induce a partial payment, compromise a dispute, retain a patron's business for the future; or to obtain a patron's business if an agreement is entered into to discount the face amount of a credit instrument before it is issued to induce timely payment of the credit instrument; and the percentage of discount of the instrument is reasonable as compared to the prevailing practice in the industry.

CREDIT CHECKS [REGULATION 6.120(2)(a)]

The licensee is required to document, prior to extending credit, the patron's established credit history to provide evidence of the patron’s credit worthiness. The information obtained should not be entirely derogatory. The following are the acceptable sources the licensee can utilize in obtaining the patron's credit history [see **Regulation 6.120(2)(a)**]:

1. **Bona fide credit reporting agency**. If the credit reporting agency indicates that there is no record for this patron, the credit check is not sufficient to comply with this requirement. If the response is that there is no derogatory information, this is sufficient. If only derogatory information is obtained, then **Regulation 6.120(2)(a)** is not satisfied because the information obtained cannot be “entirely derogatory.” If the credit card does not indicate the date the credit check was performed, this information should be obtained from the reporting agency.

2. **A legal business that has extended credit to the patron.**

3. **A financial institution at which the patron maintains an account**. Merely calling the bank would not be a valid credit check. The licensee must verify the existence of the account. Typical notations include remarks like “low fours” (meaning the patron has an account in the thousands of dollars, probably around one- to four thousand dollars) or

"low fives" which would indicate that the patron had a balance in the tens of thousands of dollars. Note that if the response by the bank is that the patron does not have an account, the credit check is not valid and a further credit check must be made in order to comply with this requirement.

4. **Licensee's records indicating previous credit transactions with the patron showing that the patron has paid substantially all of his credit instruments (referred to as a "play and pay" credit check).** The Board uses a "substantially all" guideline of 80% of all previously issued credit. A valid play and pay credit check does not exist if a patron re-pays all credit extended on the first visit but fails to pay at least 80% of all credit extended during subsequent visits. Finally, front money transactions are not considered play and pay transactions and do not constitute a credit check. Also note that the licensee must otherwise document that it has a reasonable basis for the amount extended (the regulation uses the phrase, "...and the licensee otherwise documents that it has a reasonable basis for placing the amount or sum placed at the patron's disposal…"). This means that it would be inappropriate to conclude that because the patron had previous credit balances of up to $1,000 that he was worthy of $10,000 in credit.

5. **Informed by another licensee that extended gaming credit to the patron has been substantially paid**. The rules that apply for this type of play and pay credit check are those that apply to the licensee's own history with the patron.

6. If credit information was unavailable from any of the sources 1 through 5 above for a patron who is not a resident of the United States, the licensee must obtain, in writing, information from an agent or employee of the licensee who has personal knowledge of the patron's credit background to establish a reasonable basis for the credit extension. Such documentation should be obtained at the time the credit was extended (or reasonably thereafter, i.e., within one day).

7. In the case of personal checks, the licensee has examined and recorded the patron's valid driver's license, or if a driver's license cannot be obtained, some other document acceptable as a means of identification when cashing checks, and has recorded a bank check guarantee card number or credit card type or has documented one of the credit checks.

8. In the case of third party checks for which cash, chips, or tokens have been issued to the patron or which were accepted in payment of another credit instrument, has examined and has recorded the patron's valid driver's license, or if a driver's license cannot be obtained, some other document normally acceptable as a means of identification when cashing checks and has for the check's maker or drawer, performed and documented one of the credit checks. All checks of credit history must be documented in records pertaining to the patrons.

COLLECTION EFFORT - REGULATION 6.120(3)(a)

This section of the regulation requires that the licensee make and document a valid collection effort at least once every 90 days during the period the credit instrument is considered collectible. Absent any information to the contrary, any instrument appearing on an "active" listing is considered collectible. Thus, collection efforts must continue until an account is officially written off; reserving the account through the Allowance for Doubtful Accounts does not constitute uncollectibility. Note, however, that some licensees may allow the unpaid portion of a settled account to remain on an active listing pending an official transfer to the write-off listing. If the patron has complied with the terms of the settlement by paying the portion accepted as payment in full by the licensee, there is no justification for deeming the unpaid portion collectible for this purpose.

Collection attempts may be made in a variety of ways and the regulation does not specify where and in what form the documentation must exist. Therefore, discussions with collection personnel about the various records that may contain such information and about any periods of time for which the records you have examined do not reflect a collection attempt will avoid any surprises.

Certain instances exist where it would be inappropriate to fault the collection effort. These would include, but are not limited to:

- Bankruptcy, incarceration or death of patron.
- Patron has moved and left no forwarding address.
- Account was transferred to an independent collection agency or independent legal counsel. (However, in-house legal counsel would be viewed the same as an in-house collection department.)

The licensee must furnish independent verification of such circumstances. Additionally, adequate collection effort must be demonstrated for any periods prior to the licensee acquiring knowledge of death, bankruptcy, or the patron moving without leaving a forwarding address, or to the transfer of accounts to an independent collection agency or independent legal counsel. That is, while you may recognize the licensee's knowledge of the above circumstances as valid reasons to discontinue ordinary collection efforts once the information was known to them, it would not excuse their failure to attempt collection prior to gaining that knowledge.

FORGERIES - REGULATION 6.120(3)(c)

The licensee must submit a written report of any forgery of the patron's signature on the instrument to a law enforcement agency with jurisdiction to investigate the forgery. Reporting the forgery to the Board does not satisfy this requirement. The report of forgery must contain essentially the same information as is required for reports of theft.

Financial institutions may use the term "unauthorized signature" to mean that the name of the person signing the instrument did not appear on the signature card for the account to which the instrument relates. For example, assume Joe Smith signs a marker and the licensee presents this marker for payment from an account held by Mary Smith, his wife (because when credit was extended Joe Smith listed this account on the credit card). The bank won't pay if Joe Smith's name isn't on the signature card, but this does not mean that someone forged a signature on the

instrument. It merely means the patron to whom credit was extended did not have lawful access to the funds in the account.

Some financial institutions will use the term "unauthorized signature" to mean the signature on the instrument does not match the signature on the signature card. In such a case, the instrument may have been forged. If the instrument was purportedly a forgery, then the licensee must have filed a report.

SETTLEMENTS

A licensee may settle a credit instrument for less than its face value. **Regulations 6.120(5)-(7)** address such settlements. A marker settlement must be documented within 30 days of the settlement for it to be acceptable. For a settlement form to be considered complete, **all** information listed in **Regulation 6.120(6)(b)** must be included on the form. Assessments for settled markers arise when some portion of the settlement requirements of **Regulation 6.120(5)-(7)** has not been complied with and the casino has also failed to comply with subsections 2 and 3 with respect to the marker(s) to which the settlement relates (refer to the language in subsection 5).

DISCOUNTS

Many licensees offer credit discounts to attract and retain customers and to encourage higher wagering activity. These discounts, which are merely another form of settlement pursuant to **Regulation 6.120(5)-(7)**, are structured in different ways by different licensees, the method of which may affect the deductibility of the discount. In general, discounts applied to customers' outstanding credit balances are deductible, while discounts paid out to customers in cash are generally considered promotional expenses which are not deductible.

While many credit discounts are negotiated at the conclusion of the patron's stay, some licensees offer prearranged discounts whereby the licensee and the patron enter into an agreement which stipulates the terms of all future discounts (for example, a fixed percentage of the patron's credit line or a fixed percentage of the patron's wagering losses). These types of discounts are generally deductible provided the licensee properly completed settlement forms pursuant to **Regulation 6.120(6)** to document the discounts that were granted. The existence of a signed discount agreement does not waive the requirement for a properly completed settlement form.